

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Clayton Charter Twp		County Genesee
Audit Date December 31, 2005	Opinion Date May 10, 2006	Date Accountant Report Submitted to State: June 29, 2006		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 5750 New King Street, Suite 200	City Troy	State MI	Zip 48098
Accountant Signature			

**CHARTER TOWNSHIP OF CLAYTON
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2005



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

May 10, 2006

To the Board of Trustees
Charter Township of Clayton
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Charter Township of Clayton, Michigan***, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***Charter Township of Clayton, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Charter Township of Clayton, Michigan*** as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the General, Police and Sanitation funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2006, on our consideration of the ***Charter Township of Clayton, Michigan's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**CHARTER TOWNSHIP OF CLAYTON
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2005

CHARTER TOWNSHIP OF CLAYTON MICHIGAN

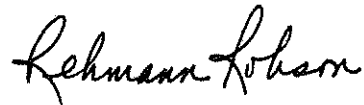
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The Management's Discussion and Analysis listed in the table of contents on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Charter Township of Clayton, Michigan's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

*Management's Discussion
And Analysis*

CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

As management of the *Clayton Charter Township, Michigan*, (the "Township") we offer readers of the Township's financial statements this narrative overview and analysis of the activities of the Township for the fiscal year ended December 31, 2005.

Financial Highlights

- The unreserved, undesignated fund balances for all governmental type funds totaled \$1,023,190 at the current fiscal year end.
- The General Fund unreserved fund balance amounted to \$988,773 at the current fiscal year end.
- The Water and Waste Water Fund received contractor capital contributions of \$767,897.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public service, community development, and sanitation. The business-type activities of the Township include water distribution and sanitary sewer operations.

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as

CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Police and Sanitation funds, each of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General Fund and special revenue funds.

2. **Proprietary funds.** The Township maintains one type of proprietary fund: *Enterprise funds* are used to provide the same functions presented as business-type activities in the government-wide financial statements. The Township uses an enterprise fund to account for its water and sanitary sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations which is considered to be a major fund of the Township.

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Township has two agency funds to account for tax collections and other governmental agency responsibilities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* in connection with nonmajor governmental funds.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Clayton Charter Township, assets exceeded liabilities by \$5,979,437 at the close of the most recent fiscal year.

By far the largest portion of the Township's net assets (66%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Clayton Charter Township's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,917,684	\$ 1,875,967	\$ 1,229,929	\$ 1,589,775	\$ 3,147,613	\$ 3,465,742
Capital assets, net	496,893	430,994	3,428,606	1,975,504	3,925,499	2,406,498
Total assets	2,414,577	2,306,961	4,658,535	3,565,279	7,073,112	5,872,240
Current liabilities	941,257	220,382	152,418	85,114	1,093,675	305,496
Noncurrent liabilities	51,263	51,263	-	-	51,263	51,263
Total liabilities	992,520	271,645	152,418	85,114	1,144,938	356,759
Net assets:						
Invested in capital assets, net of related debt	496,893	430,994	3,428,606	1,975,504	3,925,499	2,406,498
Restricted assets	43,250	350,796	-	-	43,250	350,796
Unrestricted	933,177	1,253,526	1,077,511	1,504,661	2,010,688	2,758,187
Total net assets	<u>\$ 1,473,320</u>	<u>\$ 2,035,316</u>	<u>\$ 4,506,117</u>	<u>\$ 3,480,165</u>	<u>\$ 5,979,437</u>	<u>\$ 5,515,481</u>

An additional portion of the Township's net assets (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$2,010,688 or 34%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Township's net assets increased by \$1,172,287 during the current fiscal year. This increase is a result of both governmental and business type activities as described below.

CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Governmental activities. Governmental activities increased the Township's net assets by \$146,334, thereby accounting for 12% of the Township's change in total net assets. The key factors are related to actual revenues in excess of projected budgets in the areas of intergovernmental contributions, charges for services and investment earnings.

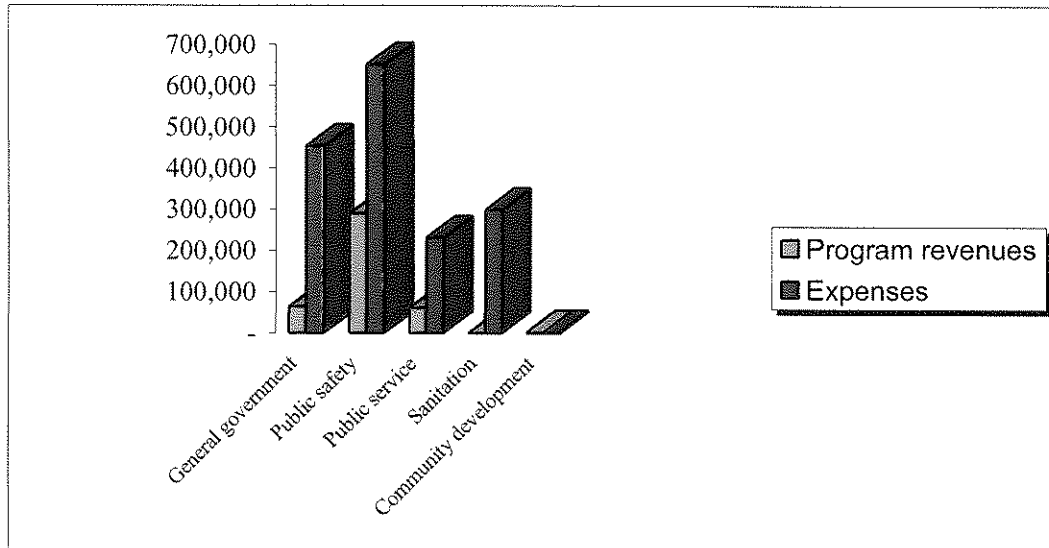
Clayton Charter Township's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenues:						
Charges for services	\$ 374,527	654,830	\$ 874,062	\$ 539,324	\$ 1,248,589	\$ 1,194,15
Operating grants and contributions	43,326	1,587	-	-	43,326	1,58
Capital grants and contributions	-	-	835,747	837,502	835,747	837,50
General revenues:						
Property taxes	708,952	399,079	-	-	708,952	399,07
State shared revenue	510,250	511,226	-	-	510,250	511,22
Grants and contributions not restricted to specific programs	55,857	16,589	-	8,805	55,857	25,39
Other	44,200	7,500	32,516	-	76,716	7,50
Total revenues	<u>1,737,112</u>	<u>1,590,811</u>	<u>1,742,325</u>	<u>1,385,631</u>	<u>3,479,437</u>	<u>2,976,44</u>
Expenses:						
General government	454,446	439,687	-	-	454,446	439,68
Public safety	655,059	656,907	-	-	655,059	656,90
Public service	179,426	29,245	-	-	179,426	29,24
Community Development	2,269	-	-	-	2,269	
Sanitation	299,578	305,248	-	-	299,578	305,24
Interest on long-term debt	-	4,739	-	-	-	4,73
Water and sewer	-	-	716,372	510,015	716,372	510,01
Total expenses	<u>1,590,778</u>	<u>1,435,826</u>	<u>716,372</u>	<u>510,015</u>	<u>2,307,150</u>	<u>1,945,84</u>
Increase in net assets before transfers	146,334	154,985	1,025,953	875,616	1,172,287	1,030,60
Transfers	-	34,865	-	(34,865)	-	
Increase (decrease) in net assets	146,334	189,850	1,025,953	840,751	1,172,287	1,030,60
Net assets-beginning	<u>1,326,986</u>	<u>1,845,466</u>	<u>3,480,164</u>	<u>2,639,414</u>	<u>4,807,150</u>	<u>4,484,88</u>
Net assets-ending	<u>\$ 1,473,320</u>	<u>\$ 2,035,316</u>	<u>\$ 4,506,117</u>	<u>\$ 3,480,165</u>	<u>\$ 5,979,437</u>	<u>\$ 5,515,48</u>

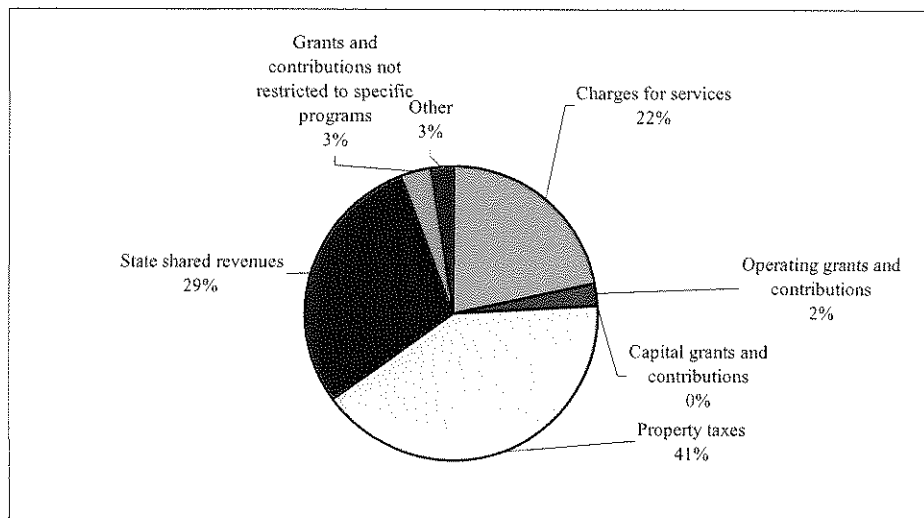
CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



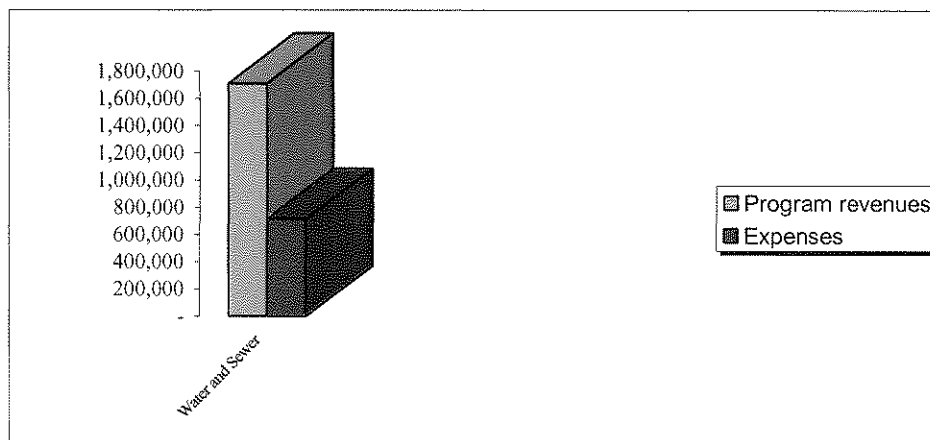
CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

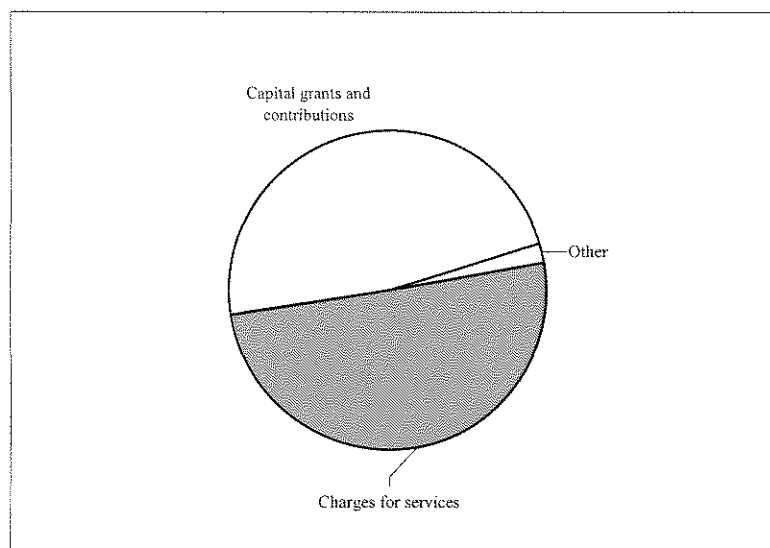
Business-type Activities. Business-type activities increased the Township's net assets by 1,025,953, accounting for the offset to the Township's total (88%) in net assets. Key elements of this increase are as follows:

- The fee structure for the business type activities is designed to build cash reserves for anticipated future capital expenditures.
- The Township received \$767,897 in contractor capital contributions.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source – Business-Type Activities



CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,027,690 an increase of \$20,478 in comparison with the prior year. Most of this total amount, \$1,023,190, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance (less than 1%) is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

The general fund is the chief operating fund of the Township. General fund *unreserved* fund balance was \$988,773 at the end of the current fiscal year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 100% of total general fund expenditures.

The fund balance of the Township's general fund increased by \$51,721 during the current fiscal year. This is primarily attributable to the effects of revenues exceeding budgeted expectations and the results of cost containment measures.

Proprietary funds. The Township's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund amounted to \$3,428,606 at the end of the year. The increase in total net assets was \$1,025,953 during the operating year. This increase was primarily due to the results of operations in the amount of \$258,000 and contractor capital contributions in the amount of \$768,000.

CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The increase in budgeted revenues of \$48,470 and increase in budgeted expenditures of \$106,043 can be briefly summarized as follows:

- Budgeted revenues were increased primarily due to higher than expected license and permit revenues.
- Budgeted expenditures were increased primarily due to higher than expected costs associated with the Township Board, Supervisor and Township Hall departments.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounted to \$3,925,499 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the Township's investment in capital assets for the current fiscal year was \$1,519,002 or 63% which represents an increase in governmental activities of \$65,900 or 15%, and an increase in business-type activities of \$1,453,102 or 74%.

Major capital asset events during the current fiscal year included the following:

- Purchase of police vehicles and equipment
- Water/Sewer line contributions from local contractors

Clayton Charter Township's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 63,842	\$ -	\$ 63,842
Buildings	183,308	-	183,308
Building improvements	35,886	-	35,886
Land improvements	24,763	-	24,763
Public infrastructure	54,553	3,428,606	3,483,159
Vehicles	70,894	-	70,894
Equipment	63,647	-	63,647
Total	<u>\$ 496,893</u>	<u>\$ 3,428,606</u>	<u>\$ 3,925,499</u>

Further information regarding capital assets can be found in the notes to the financial statements.

CLAYTON CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2005-06 fiscal year:

- Taxable value of real and personal property to stay level.
- Increase in wages and benefit costs of 2.25%
- The State Shared Revenue to stay level.
- Capital expenditures to decrease from prior year

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Administrator, 2011 S. Morrish Road, Swartz Creek, MI 48473.

*Basic
Financial Statements*

CLAYTON CHARTER TOWNSHIP
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and investments	\$ 1,557,068	\$ 903,661	\$ 2,460,729
Receivables (net)	429,886	256,998	686,884
Internal balances	(69,270)	69,270	-
Capital assets not being depreciated	63,842	-	63,842
Capital assets being depreciated, net	<u>433,051</u>	<u>3,428,606</u>	<u>3,861,657</u>
Total assets	<u>2,414,577</u>	<u>4,658,535</u>	<u>7,073,112</u>
Liabilities			
Accounts payable	100,340	152,418	252,758
Accrued liabilities	7,965	-	7,965
Unearned revenue	741,923	-	741,923
Deposits payable	39,766	-	39,766
Due to other governments	-	-	-
Noncurrent liabilities:			
Due within one year	<u>51,263</u>	<u>-</u>	<u>51,263</u>
Total liabilities	<u>941,257</u>	<u>152,418</u>	<u>1,093,675</u>
Net assets			
Invested in capital assets	496,893	3,428,606	3,925,499
Restricted for:			
Sanitation	27,144	-	27,144
Debt service	4,500	-	4,500
Capital projects	2,039	-	2,039
Public utilities	9,567	-	9,567
Unrestricted	<u>933,177</u>	<u>1,077,511</u>	<u>2,010,688</u>
Total net assets	<u>\$ 1,473,320</u>	<u>\$ 4,506,117</u>	<u>\$ 5,979,437</u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General government	454,446	23,046	41,057	-	(390,343)
Public safety	655,059	290,177	-	-	(364,882)
Public service	179,426	61,304	-	-	(118,122)
Community development	2,269	-	2,269	-	-
Sanitation	299,578	-	-	-	(299,578)
Total governmental activities	<u>1,590,778</u>	<u>374,527</u>	<u>43,326</u>	<u>-</u>	<u>(1,172,925)</u>
Business-type activities:					
Water and sewer	716,372	874,062	-	835,747	993,437
Total business-type activities	<u>716,372</u>	<u>874,062</u>	<u>-</u>	<u>835,747</u>	<u>993,437</u>
Total primary government	<u>\$ 2,307,150</u>	<u>\$ 1,248,589</u>	<u>\$ 43,326</u>	<u>\$ 835,747</u>	<u>\$ (179,488)</u>

(Continued)

CLAYTON CHARTER TOWNSHIP
STATEMENT OF ACTIVITIES (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (1,172,925)	\$ 993,437	\$ (179,488)
General revenues:			
Property taxes	708,952	-	708,952
State shared revenue	510,250	-	510,250
Grants and contributions not restricted to specific programs	55,857	-	55,857
Unrestricted investment earnings	44,200	32,516	76,716
Total general revenues	1,319,259	32,516	1,351,775
Change in net assets	146,334	1,025,953	1,172,287
Net assets, beginning of year	1,326,986	3,480,164	4,807,150
Net assets, end of year	<u>\$ 1,473,320</u>	<u>\$ 4,506,117</u>	<u>\$ 5,979,437</u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General Fund	Police Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,202,074	\$ 110,675	\$ 195,393	\$ 48,926	\$ 1,557,068
Receivables (net of allowance for uncollectibles):					
Current taxes	80,179	8,269	-	-	88,448
Customer assessments	106,896	100,812	125,774	7,956	341,438
Due from other funds	25,744	-	-	4,500	30,244
Total assets	\$ 1,414,893	\$ 219,756	\$ 321,167	\$ 61,382	\$ 2,017,198
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 87,625	\$ 11,351	\$ -	\$ 1,364	\$ 100,340
Accrued liabilities	3,798	4,167	-	-	7,965
Due to other funds	73,770	-	-	25,744	99,514
Deferred revenue	221,161	208,571	294,023	18,168	741,923
Deposits payable	39,766	-	-	-	39,766
Total liabilities	426,120	224,089	294,023	45,276	989,508
Fund balances:					
Reserved for:					
Debt service	-	-	-	4,500	\$ 4,500
Unreserved, undesignated for:					
General fund	988,773	-	-	-	988,773
Capital projects	-	-	-	2,039	2,039
Special revenue funds (deficit)	-	(4,333)	27,144	9,567	32,378
Total fund balances	988,773	(4,333)	27,144	16,106	1,027,690
Total liabilities and fund balances	\$ 1,414,893	\$ 219,756	\$ 321,167	\$ 61,382	\$ 2,017,198

The accompanying notes are an integral part of these financial statements.

**CLAYTON CHARTER TOWNSHIP
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Fund balances - total governmental funds	\$ 1,027,690
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	947,754
Deduct: accumulated depreciation	(450,861)

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term are reported in the statement of net assets.

(51,263)

Net assets of governmental activities	<u><u>\$ 1,473,320</u></u>
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The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Police Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 210,403	\$ -	\$ -	\$ -	\$ 210,403
Customer assessments	-	199,083	283,140	16,326	498,549
Licenses and permits	182,290	-	-	-	182,290
Intergovernmental - state	551,307	1,107	-	2,269	554,683
Charges for services	116,375	-	-	-	116,375
Interest and rent	37,255	2,103	4,299	543	44,200
Miscellaneous	2,373	126,202	-	2,037	130,612
Total revenues	<u>1,100,003</u>	<u>328,495</u>	<u>287,439</u>	<u>21,175</u>	<u>1,737,112</u>
Expenditures					
General government	450,460	-	-	-	450,460
Public safety	324,448	357,976	-	-	682,424
Public service	161,158	-	-	20,948	182,106
Sanitation	600	-	299,578	-	300,178
Community development	-	-	-	2,269	2,269
Debt service:					
Principal	49,989	-	-	-	49,989
Interest	2,580	-	-	-	2,580
Capital outlay	-	-	-	46,628	46,628
Total expenditures	<u>989,235</u>	<u>357,976</u>	<u>299,578</u>	<u>69,845</u>	<u>1,716,634</u>
Revenues over (under) expenditures	110,768	(29,481)	(12,139)	(48,670)	20,478
Other financing sources (uses)					
Transfers in	-	8,000	-	51,047	59,047
Transfers out	(59,047)	-	-	-	(59,047)
Total other financing sources (uses)	<u>(59,047)</u>	<u>8,000</u>	<u>-</u>	<u>51,047</u>	<u>-</u>
Net change in fund balances	51,721	(21,481)	(12,139)	2,377	20,478
Fund balances, beginning of year	<u>937,052</u>	<u>17,148</u>	<u>39,283</u>	<u>13,729</u>	<u>1,007,212</u>
Fund balances (deficits), end of year	<u>\$ 988,773</u>	<u>\$ (4,333)</u>	<u>\$ 27,144</u>	<u>\$ 16,106</u>	<u>\$ 1,027,690</u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balances - total governmental funds \$ 20,478

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	124,150
Deduct: depreciation expense	(48,283)

Repayment of installment purchase agreement principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. Principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

49,989

Change in net assets of governmental activities	<u><u>\$ 146,334</u></u>
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The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u> <u>Final Budget</u>
Revenues				
Property taxes	\$ 210,052	\$ 210,052	\$ 210,403	\$ 351
Licenses and permits	126,100	173,620	182,290	8,670
Intergovernmental - state	519,121	519,121	551,307	32,186
Charges for services	92,836	93,486	116,375	22,889
Investment earnings	10,000	10,000	37,255	27,255
Other	500	800	2,373	1,573
Total revenues	<u>958,609</u>	<u>1,007,079</u>	<u>1,100,003</u>	<u>92,924</u>
Expenditures				
General government:				
Township Board	138,130	148,130	146,007	(2,123)
Supervisor	99,820	109,820	105,992	(3,828)
Elections	8,625	3,155	2,727	(428)
Clerk	82,975	87,975	87,966	(9)
Treasurer	34,000	35,000	33,926	(1,074)
Township hall and grounds	39,350	51,350	49,872	(1,478)
Cemetery	7,400	8,400	7,468	(932)
Zoning Board	12,250	13,250	12,846	(404)
Appeal Board	2,250	2,350	2,371	21
Board of Review	1,850	1,850	1,285	(565)
Total general government	<u>426,650</u>	<u>461,280</u>	<u>450,460</u>	<u>(10,820)</u>
Public safety:				
Police	3,750	3,750	3,727	(23)
Fire	142,950	150,000	155,221	5,221
Building department	136,835	178,015	165,500	(12,515)
Total public safety	<u>283,535</u>	<u>331,765</u>	<u>324,448</u>	<u>(7,317)</u>
Public service	120,567	143,750	161,158	17,408
Sanitation	600	600	600	-
Debt service:				
Principal	49,989	49,989	49,989	-
Interest	3,011	3,011	2,580	(431)
Total expenditures	<u>884,352</u>	<u>990,395</u>	<u>989,235</u>	<u>(1,160)</u>
Excess of revenues over expenditures	74,257	16,684	110,768	94,084
Other financing sources (uses)				
Transfers out	<u>(123,968)</u>	<u>(95,668)</u>	<u>(59,047)</u>	<u>36,621</u>
Net change in fund balances	(49,711)	(78,984)	51,721	130,705
Fund balance, beginning of year	<u>937,052</u>	<u>937,052</u>	<u>937,052</u>	<u>-</u>
Fund balance, end of year	<u>\$ 887,341</u>	<u>\$ 858,068</u>	<u>\$ 988,773</u>	<u>\$ 130,705</u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
POLICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 197,953	\$ 197,953	\$ 199,083	\$ 1,130
Intergovernmental - state	700	700	1,107	407
Interest	500	500	2,103	1,603
Miscellaneous	71,944	98,226	126,202	27,976
Total revenues	271,097	297,379	328,495	31,116
Expenditures				
Current:				
Public safety	315,718	342,000	357,976	15,976
Excess (deficiency) of revenues over (under) expenditures	(44,621)	(44,621)	(29,481)	15,140
Other financing sources (uses)				
Transfers in	44,621	44,621	8,000	(36,621)
Net change in fund balances	-	-	(21,481)	(21,481)
Fund balance, beginning of year	11,725	11,725	17,148	5,423
Fund balance (deficit), end of year	<u>\$ 11,725</u>	<u>\$ 11,725</u>	<u>\$ (4,333)</u>	<u>\$ (16,058)</u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SANITATION FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Customer assessments	\$ 279,279	\$ 279,279	\$ 283,140	\$ 3,861
Interest	5,000	5,000	4,299	(701)
Total revenues	284,279	284,279	287,439	3,160
Expenditures				
Sanitation	290,779	290,779	299,578	8,799
Net change in fund balances	(6,500)	(6,500)	(12,139)	(5,639)
Fund balance, beginning of year	39,283	39,283	39,283	-
Fund balance, end of year	<u>\$ 32,783</u>	<u>\$ 32,783</u>	<u>\$ 27,144</u>	<u>\$ (5,639)</u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2005

	Water Supply and Sewage Disposal System
Assets	
Current assets:	
Cash and investments	\$ 903,661
Receivables:	
Customers	40,511
Unbilled utility charges	121,625
Delinquent fees	39,964
Accrued interest	1,899
Due from other funds	69,270
Due from other governments	24,300
Total current assets	<u>1,201,230</u>
Noncurrent assets:	
Utility systems	4,167,322
Less accumulated depreciation	<u>(738,716)</u>
Net capital assets	<u>3,428,606</u>
Other assets:	
Tap-in contracts receivable - long term	28,699
Total assets	<u>4,658,535</u>
Liabilities	
Current liabilities:	
Accounts payable	<u>152,418</u>
Net Assets	
Investment in capital assets	3,428,606
Unrestricted	<u>1,077,511</u>
Total net assets	<u><u>\$ 4,506,117</u></u>

The accompanying notes are an integral part of these financial statements.

**CLAYTON CHARTER TOWNSHIP
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Water Supply and Sewage Disposal System
Operating revenues	
Sewer treatment fees	\$ 345,720
Water usage fees	255,459
Tap fees	324,950
Other	15,783
Total operating revenues	<u>941,912</u>
Operating expenses	
Sewer treatment	204,283
Water usage cost	192,308
Computer billing	2,514
Rental of water and sewer systems	8,100
Hydrant expense	5,065
Pump station expense	28,379
Depreciation	45,971
Administration - salaries and fringe benefits	36,361
Professional fees	1,616
Supplies	71
Other	191,704
Total operating expenses	<u>716,372</u>
Operating income	225,540
Non-operating revenues	
Interest on investments	<u>32,516</u>
Total non-operating revenues	<u>32,516</u>
Income before capital contributions	258,056
Capital contributions	<u>767,897</u>
Change in net assets	1,025,953
Net assets, beginning of year	<u>3,480,164</u>
Net assets, end of year	<u><u>\$ 4,506,117</u></u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Water Supply and Sewage Disposal System
Cash flows from operating activities	
Receipts from customers and users	\$ 870,143
Payments to suppliers	(566,738)
Payments to employees	(36,361)
	<u>267,044</u>
Cash flows from investing activities	
Investment income	32,516
Purchase of investment securities	(318,824)
	<u>(286,308)</u>
Cash flows from capital and related financing activities	
Capital contributions received	767,897
Purchase of capital assets	(1,499,072)
	<u>(731,175)</u>
Net increase (decrease) in cash and cash equivalents	(750,439)
Cash and cash equivalents, beginning of year	<u>1,335,276</u>
Cash and cash equivalents, end of year	<u><u>\$ 584,837</u></u>
Statement of net asset classification of cash and cash equivalents	
Cash and investments	\$ 903,661
Less investments with maturities in excess of three months	<u>(318,824)</u>
Total cash and cash equivalents	<u><u>\$ 584,837</u></u>
	Continued.....

CLAYTON CHARTER TOWNSHIP
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Water Supply and Sewage Disposal System
Reconciliation of operating income (loss)	
to net cash provided by operating activities	
Operating income	\$ 225,540
Adjustments to reconcile operating income (loss)	
to net cash provided by operating activities:	
Depreciation	45,971
Changes in assets and liabilities:	
Receivables	(52,291)
Due from other funds	4,822
Due from other governments	(24,300)
Accounts payable	81,952
Due to other funds	(14,650)
Net cash provided by operating activities	\$ 267,044

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005

	<u>Total</u>
Assets	
Cash and cash equivalents	<u>\$ 1,537,339</u>
Liabilities	
Accounts payable	9,451
Deposits payable	2,040
Tax collections unallocated	<u>1,525,848</u>
Total liabilities	<u>\$ 1,537,339</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Township of Clayton, Michigan elected Charter Township status in June 1978. The Charter Township of Clayton (the "Township") is governed by a seven member board of trustees and provides services to its residents as authorized by its charter in the areas of public safety (police, fire, and building inspections), highways and streets, sanitation, public improvements, recreation, planning, and general administrative services.

The Township currently does not have any component units as defined under current governmental accounting standards. The following organization is not included in the Township's annual report as a component unit, but rather is considered a joint venture.

Swartz Creek Area Fire Department:

- Represents a joint venture with the Charter Township of Clayton and the City of Swartz Creek and is financed primarily through contributions from the above municipalities.
- Serves the City of Swartz Creek in addition to the Charter Township of Clayton.

The Swartz Creek Area Fire Department has a December 31 year end. Audited financial statements of the fire department for the year ended December 31, 2005, are available for public inspection at department headquarters.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

reported as separate columns in the fund financial statements.

C. Measurement focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The exception to this is for state shared revenue which is considered available within 90 days of year end and any amount derived from an expenditure driven grant agreement. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Police Fund is used to account for the activities related to the Township policing their own community.

Sanitation Fund is used to account for the customer charges which are to be used to pay contracted services for rubbish collection.

The Township reports the following major proprietary fund:

The Water Supply and Sewer Disposal System Fund is maintained for the operations of the

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

water distribution system and sewage pumping and collection system that transmit the sewage to Genesee County's treatment plant.

Additionally, the Township reports the following fund type:

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. Principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

acquisition.

Investments for the Township are reported at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

Receivables and payables

In general, outstanding balances between funds are reported as “due to/from other funds”; activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as “advances to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade, notes, contracts and property tax receivables are shown net of an allowance for uncollectibles.

Prepaid items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. There were no prepaid items at December 31, 2005.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two (2) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	50
Building improvements	20
Land improvements	20
Public infrastructure	50-100
Vehicles	5
Equipment	5

Accumulated unpaid sick and vacation pay

All full-time employees can accumulate sick days at a rate of five days per year. Vacation pay can be accumulated by full-time employees up to a maximum of three weeks, depending on years of service. Unused sick and vacation days cannot be carried forward, and accordingly, no accrual for compensated absences has been recognized.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. However, the township had no outstanding long-term debt as of the current fiscal year-end.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property taxes

The Township levies property taxes on December 1 each year which are payable without penalty through February 28. These taxes become liens on the property at that date. However, the revenues generated by the tax levy cannot be appropriated until the budget year following the levy date. The asset created by the levy on December 1 is recorded in the appropriate fund as current taxes receivable. In addition, a deferred revenue offset account is recorded recognizing the funds as unavailable for current appropriation. Tax collections made from December 1 through December 31 in the current tax agency fund are recorded as unallocated tax collections. These monies are distributed to the appropriate funds in the ensuing budget year. Revenues generated by the levy of a 1% property tax administrative fee are recognized on a cash basis.

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other Township funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted on a departmental (activity) basis through passage of a resolution in accordance with Public Act 621 of the State of Michigan.
4. The Supervisor is authorized to transfer budgeted amounts within departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. The Township does not recognize encumbrances at year end and as such they are reappropriated into the following year's budget. Also, all budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Budget appropriations lapse at year-end.

B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

During the year ended December 31, 2005, the Township incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Board of Appeal	\$ 2,350	\$ 2,371	\$ 21
Fire Department	150,000	155,221	5,221
Public Service	196,750	213,727	16,977
Police Fund:	342,000	357,976	15,976
Sanatation Fund:	290,779	299,578	8,799

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

	<u>Deposits</u>	<u>Petty Cash</u>	<u>Total</u>
Governmental-wide financial statements:			
Cash and cash equivalents	\$ 1,901,187	\$ 600	\$ 1,901,787
Investments - CD's	558,942	-	558,942
Cash and investments	<u>2,460,129</u>	<u>600</u>	<u>2,460,729</u>
Fiduciary fund financial statements:			
Cash and cash equivalents	1,537,339	-	1,537,339
	<u>\$ 3,997,468</u>	<u>\$ 600</u>	<u>\$ 3,998,068</u>

State statutes authorize the Township to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase obligations of the U.S. Government and U.S. agencies, banker's acceptances of U.S. banks, and mutual funds comprised of the above authorized investments.

Investment and deposit risk:

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Township's

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the Township's investment policy limits investments to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end \$3,059,782 of the Township's bank deposits of \$3,497,468 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk. There were no investments held by the Township at year end.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. There were no investments that exceeded 5% of the Township's total investments at year end.

B. Receivables

Taxes receivable compose approximately 79.4% of the total accounts receivable in the governmental activities. The remaining amount is composed of Other Receivables.

Business-type activities receivables are 47.3% due from unbilled utility charges. The remaining 52.7% is made up of 15.8% from accounts, 15.6% from delinquent fees, 11.2% from tap-in contracts, 9.4% from taxes receivable and 0.7% from accrued interest.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue of \$741,923 was unearned in the governmental funds as a result of property taxes assessed for the subsequent year.

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 63,842	\$ -	\$ -	\$ 63,842
Capital assets, being depreciated				
Buildings	399,242	-	-	399,242
Building improvements	173,443	-	-	173,443
Land improvements	32,846	-	-	32,846
Public infrastructure	56,827	-	-	56,827
Vehicles	89,015	44,591	(16,611)	116,995
Equipment	25,000	79,559	-	104,559
Total capital assets being depreciated	776,373	124,150	(16,611)	883,912
Less accumulated depreciation for				
Buildings	(212,085)	(3,849)	-	(215,934)
Building improvements	(134,947)	(2,610)	-	(137,557)
Land improvements	(6,707)	(1,376)	-	(8,083)
Public infrastructure	(1,137)	(1,137)	-	(2,274)
Vehicles	(29,346)	(23,399)	6,644	(46,101)
Equipment	(25,000)	(15,912)	-	(40,912)
Total accumulated depreciation	(409,222)	(48,283)	6,644	(450,861)
Total capital assets, being depreciated, net	367,151	75,867	(9,967)	433,051
Governmental activities capital assets, net	\$ 430,993	\$ 75,867	\$ (9,967)	\$ 496,893

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, being depreciated				
Water system	\$ 145,548	\$ 499,073	\$ -	\$ 644,621
Sewer system	2,522,702	1,000,000	-	3,522,702
Total capital assets being depreciated	<u>2,668,250</u>	<u>1,499,073</u>	<u>-</u>	<u>4,167,323</u>
Less accumulated depreciation for				
Water system	(54,847)	(10,745)	-	(65,592)
Sewer system	(637,899)	(35,226)	-	(673,125)
Total accumulated depreciation	<u>(692,746)</u>	<u>(45,971)</u>	<u>-</u>	<u>(738,717)</u>
Business-type activities capital assets, net	<u>\$ 1,975,504</u>	<u>\$ 1,453,102</u>	<u>\$ -</u>	<u>\$ 3,428,606</u>

Depreciation was charged to functions of the primary government as follows:

Governmental activities:

General government	\$ 3,986
Public safety	43,160
Public service	<u>1,137</u>
Total depreciation expense-governmental activities	<u>\$48,283</u>

Business activities:

Water system	\$10,745
Sewer system	<u>35,226</u>
Total depreciation expense-governmental activities	<u>\$45,971</u>

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances at December 31, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	NMGF	\$ 25,744
Water/Sewer	General	69,270
Debt Service	General	<u>4,500</u>
Total		<u>\$ 99,514</u>

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) transactions are recorded in the accounting system.

Transfers Out	Transfers In	Amount
General	Police fund	\$ 8,000
	Capital projects	51,057
Total		<u>\$ 59,057</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

Act 359, Public Acts of State 1933, authorizes the Township using an installment purchase agreement. However, the contracts outstanding for the Township may not exceed 1.25% of the Township's taxable value. Significant details regarding the Township's installment obligations are as follows:

Governmental activities	Beginning Balance	Additions	Reductions	Ending Balance	Current Amount
Police Department	<u>\$ 101,252</u>	<u>\$ -</u>	<u>\$ (49,989)</u>	<u>\$ 51,263</u>	<u>\$ 51,263</u>

Annual debt service requirements to maturity for the above obligation is principal in the amount of \$51,263 and related interest in the amount of \$1,306 due in the 2006 fiscal year.

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The Township carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded coverage during the past three years.

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

B. Property Taxes

The government's property taxes are levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by February 28th. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Genesee County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Township for the 2005 levy was \$195,738,404. The government's general operating tax rate was 1.04 mills with an additional 0.9841 for the Police Fund.

C. Committed and Contingent Liabilities

The Township participates in a number of federal and state assisted grant programs, principal of which is Community Development Block Grants (CDBG). These programs are subject to program compliance audits. In accordance with the Single Audit Act, a single audit was not required since the Township expended less than \$500,000 in federal funds. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

D. Joint Venture

Swartz Creek Area Fire Department

In April 1980, the Charter Township of Clayton entered into a joint venture with the City of Swartz Creek to create the Swartz Creek Area Fire Department. The purpose of this joint venture was to obtain adequate fire protection for residents of the Township. The agreement calls for the quarterly accumulation of expenditures and then billing to each participating governmental unit on the basis of fire runs. The agreement provides the Charter Township of Clayton a half interest in the vehicles, offices, and operating equipment maintained by the Swartz Creek Area Fire Department. The Swartz Creek Area Fire Department submits each governmental unit's share of the annual operating budget before their respective governing boards for approval. For the year ended December 31, 2004 (the most recent audited information) the fire department had total assets in the amount of \$28,424, liabilities of \$13,079, fund equity of \$15,345, revenues of \$272,920, and expenditures of \$258,665.

E. Defined Contribution Plan

The Township has a single employer defined contribution plan administered by Manufacturer's Life Insurance Company, covering substantially all full-time employees. Ten percent of projected base wages plus administrative costs is contributed to the plan by the Township at the beginning of the year. The employee also has the option of contributing an additional ten percent. The Township's policy is to fund contribution costs accrued on an annual basis. Employer

CHARTER TOWNSHIP OF CLAYTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

contributions for the year were \$30,978. No employee contributions were made. The defined contribution plan, as established, does not recognize prior service costs, as it is based exclusively on current compensation earned by participants.

F. Construction Code Revenue/Expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The Township chose the latter because historically, the expenditures have exceeded revenues.

G. Prior Period Adjustments

Fund Financial Statements:

Sanitation Fund:

Ending fund balance as previously stated	\$ 313,206
Deduct change in property tax revenue recognition	(273,923)
Beginning fund balance as restated	<u>\$ 39,283</u>

Lighting Service Fund:

Ending fund balance as previously stated	\$ 25,442
Deduct change in special assessment revenue recognition	(16,213)
Beginning fund balance as restated	<u>\$ 9,229</u>

Government-Wide Financial Statements:

Ending net assets as previously stated	\$ 2,035,316
Deduct change in property tax revenue, special assessment and state shared revenue recognition	(708,330)
Beginning net assets as restated	<u>\$ 1,326,986</u>

* * * * *

*Supplementary
Information*

CLAYTON CHARTER TOWNSHIP
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Lighting Service</u>	<u>CDBG Fund</u>	<u>Debt Service</u>	<u>Revolving & Improvement</u>	
Assets					
Cash and investments	\$ 21,143	\$ -	\$ -	\$ 27,783	\$ 48,926
Receivables:					
Customer assessments	7,956	-	-	-	7,956
Due from other funds	-	-	4,500	-	4,500
Total assets	<u>\$ 29,099</u>	<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ 27,783</u>	<u>\$ 61,382</u>
Liabilities					
Accounts payable	\$ 1,364	\$ -	\$ -	\$ -	\$ 1,364
Due to other funds	-	-	-	25,744	25,744
Unearned revenue	18,168	-	-	-	18,168
Total liabilities	<u>19,532</u>	<u>-</u>	<u>-</u>	<u>25,744</u>	<u>45,276</u>
Fund balance:					
Reserved for debt service	-	-	4,500	-	4,500
Unreserved, undesignated	9,567	-	-	2,039	11,606
Total fund balances	<u>9,567</u>	<u>-</u>	<u>4,500</u>	<u>2,039</u>	<u>16,106</u>
Total liabilities and fund balance	<u>\$ 29,099</u>	<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ 27,783</u>	<u>\$ 61,382</u>

CLAYTON CHARTER TOWNSHIP
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Lighting Service</u>	<u>CDBG Fund</u>	<u>Debt Service</u>	<u>Revolving & Improvement</u>	
Revenues					
Customer assessments	\$ 16,326	\$ -	\$ -	\$ -	\$ 16,326
Interest	543	-	-	-	543
Grants	-	2,269	-	-	2,269
Other	-	-	-	2,037	2,037
Total revenues	<u>16,869</u>	<u>2,269</u>	<u>-</u>	<u>2,037</u>	<u>21,175</u>
Expenditures					
Public service	16,531	-	-	4,417	20,948
Community development	-	2,269	-	-	2,269
Capital outlay	-	-	-	46,628	46,628
Total expenditures	<u>16,531</u>	<u>2,269</u>	<u>-</u>	<u>51,045</u>	<u>69,845</u>
Revenues over (under) expenditure	338	-	-	(49,008)	(48,670)
Other financing sources (uses)					
Transfers in	-	-	-	51,047	51,047
Net change in fund balances	<u>338</u>	<u>-</u>	<u>-</u>	<u>2,039</u>	<u>2,377</u>
Fund balances, beginning of year	<u>9,229</u>	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>13,729</u>
Fund balances, end of year	<u>\$ 9,567</u>	<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ 2,039</u>	<u>\$ 16,106</u>

CLAYTON CHARTER TOWNSHIP
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LIGHTING FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final Budget</u>
Revenues				
Customer assessments	\$ 17,126	\$ 17,126	\$ 16,326	\$ (800)
Interest	-	-	543	543
Total revenues	<u>17,126</u>	<u>17,126</u>	<u>16,869</u>	<u>(257)</u>
Expenditures				
Public service	<u>17,127</u>	<u>17,127</u>	<u>16,531</u>	<u>(596)</u>
Net change in fund balances	(1)	(1)	338	339
Fund balance, beginning of year	<u>9,229</u>	<u>9,229</u>	<u>9,229</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 9,228</u></u>	<u><u>\$ 9,228</u></u>	<u><u>\$ 9,567</u></u>	<u><u>\$ 339</u></u>

CLAYTON CHARTER TOWNSHIP
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CDBG FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>	
Revenues					
Grant revenue	\$ 105,000	\$ 105,000	\$ 2,269	\$ (102,731)	
Expenditures					
Public service	<u>105,000</u>	<u>105,000</u>	<u>2,269</u>	<u>(102,731)</u>	
Net change in fund balances	-	-	-	-	
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	

CLAYTON CHARTER TOWNSHIP
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005

	<u>Current Tax Fund</u>	<u>General Agency</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,535,299	\$ 2,040	\$ 1,537,339
	<u> </u>	<u> </u>	<u> </u>
Liabilities			
Accounts payable	\$ 9,451	-	9,451
Deposits payable	-	2,040	2,040
Tax collections unallocated	1,525,848	-	1,525,848
Total liabilities	<u>\$ 1,535,299</u>	<u>\$ 2,040</u>	<u>\$ 1,537,339</u>

The accompanying notes are an integral part of these financial statements.

*Internal Control
And
Compliance*



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

May 10, 2006

To the Board of Trustees
Charter Township of Clayton
Genesee County, Michigan

We have audited the financial statements of the governmental activities, business activities, each major fund, and the aggregate remaining fund information of ***Charter Township of Clayton*** (the "Township") as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated May 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

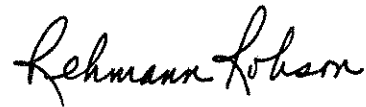
Internal Control Over Financial Reporting

In planning and performing our audit, we considered ***the Township's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Township in a separate letter dated May 10, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *the Township's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.